[COMMITTEE PRINT]

SUMMARY OF STATEMENTS PRESENTED IN PANEL DISCUSSIONS ON THE STATE OF THE ECONOMY AND THE PRESIDENT'S 1975 LEGISLATIVE TAX PROPOSALS

PREPARED FOR THE USE OF THE

COMMITTEE ON WAYS AND MEANS

BY THE STAFF OF THE

JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

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SUMMARY OF STATEMENTS PRESENTED IN PANEL DISCUSSIONS ON THE STATE OF THE ECONOMY AND THE PRESIDENT'S 1975 TAX PROPOSALS

In his State of the Union Message, the President announced new economic, tax, and energy programs designed to deal with the problems of recession, inflation, and energy dependence. The tax proposals include a temporary tax cut, based on 1974 tax liabilities, and also permanent tax reductions and payments to nontaxpayers which are to be financed by energy conservation taxes. In addition, the President resubmitted several of his tax proposals made on October 8, 1974, and earlier. In general, the tax proposals presented by the President may be outlined as follows:

I. Temporary tax cut of $16 billion.

A. A tax reduction for individuals of $12 billion provided by a cash refund equal to 12 percent of a taxpayer's 1974 tax liabilities up to a maximum tax reduction of $1,000.

B. A temporary increase in the investment tax credit (from 7 percent to 12 percent generally, and from 4 percent to 12 percent for utilities) for business and farmers of $4 billion effective for property placed in service in 1975 (with an additional 2-year period for certain utility property) and covering binding contracts in effect at the end of 1975 if the property is placed in service before the end of 1976.

II. Permanent tax reductions and payments to nontaxpayers financed by energy conservation taxes and fees.

A. Energy conservation taxes and fees (to raise about $30 billion).

1. An excise tax on all domestic crude oil of $2 per barrel and a fee on imported crude oil and product imports of $2 per barrel.[1]

2. An excise tax on natural gas of 37 cents per thousand cubic feet (the equivalent on a Btu basis to the $2 per barrel petroleum excise tax and import fee).

3. A windfall profits tax on the profits realized by producers of domestic oil at rates graduated from 15 percent to 90 percent on that portion of the price per barrel that exceeds the producer's adjusted base price, which represents the windfall profit, retroactive to January 1, 1975.

B. Permanent tax reductions for individuals and payments to nontaxpayers.

1. An increase in the low income allowance from the present $1,300 level to $2,600 for joint returns ($2,000 for single returns).

[1] The administration plans to impose a fee of $3 per barrel on imported crude oil by April 1975 ($1 per month beginning in February) and a fee of $1.20 on imports of refined petroleum products. When the excise tax on domestic crude oil is imposed, the administration plans to set an import fee of $2 per barrel on all imported petroleum, both crude oil and refined products.

2. A cut in the schedule of tax rates.

3. A 15-percent tax credit on the first $1,000 of expenditures for thermal efficiency improvements in residences, effective January 1, 1975.

4. An $80 per adult payment to nontaxpayers and a lesser amount for certain low income taxpayers who receive less than $80 in tax reductions so their refund and tax reduction together equal $80.

C. Permanent tax reductions for corporations.—A reduction in the corporate rate of 6 percentage points (from 48 percent to 42 percent) effective for 1975.

III. Resubmission of tax proposals of October 8, 1974, and earlier.

A. Elimination of the withholding tax on portfolio investments in the United States of nonresident aliens and foreign corporations.

B. Deduction of dividends paid on qualified preferred stock for corporate income tax purposes.

C. A new tax incentive for financial institutions for investment in residential mortgages.

Following testimony from the Administration on the President's 1975 tax proposals, the Committee on Ways and Means conducted three days of panel discussions with various academic, business, labor, and consulting economists on January 27–29, 1975. The following is a summary of the statements presented in the three panel discussions on the state of the economy and the President's 1975 tax proposals.

PANEL NO. 1 (JANUARY 27, 1975)

R. A. Gordon, University of California and President, American Economics Association

Economic situation

States that the economy is now in its fifth consecutive quarter of declining output and rising unemployment, making it the longest and most severe recession since the 1930's. Points out that some steps have been taken to react to the rising unemployment: liberalized unemployment compensation and a modest expansion in public service employment. Notes that the U.S. is also faced with the need to also cope with double-digit inflation and to cut back consumption of imported oil.

Indicates that the current inflation spiral is not of the classical demand-pull variety, but rather a combination of cost-push from wage catchups to losses in real wages, increased oil prices, and some sectoral supply shortages, particularly in food. Asserts that with growing excess capacity and rising unemployment, however, expansionary fiscal and monetary action in 1975 will not noticeably accelerate inflation.

Commends the President for coming forward with a fiscal program that attempts to cope with two current economic problems: the worsening recession and the energy shortage. Questions, however, some of the specifics of the program.

Income tax cut

Personal income tax.—Suggests that the President's proposed tax rebate will not provide a large enough stimulus and that the second

of the proposed two-part payment will come too late. Asserts that much of a two-installment rebate will go into reducing debt and into savings, particularly given the current depressed state of consumer confidence and the relatively small sum to be rebated to most taxpayers. Further, indicates that most of the rebates that would go to taxpayers with incomes over $25,000 will not be spent. Favors a larger tax reduction (of $20 billion or more in 1975), chiefly in the form of reduced withholding that would be continued into 1976.

Recommends supplementing a tax cut with $5 billion for public service employment. Maintains that such expenditures give more "bang for a buck" than do tax cuts or other types of public expenditures.

Investment tax credit.—Expresses doubt that the proposed increase in the credit to 12 percent will result in much additional investment due to business pessimism, falling profits, a liquidity squeeze, and high long-term interest rates.

Energy tax proposals

Believes that the President's overall proposal will have a depressing effect on production and employment while being inflationary throughout the economy. Doubts that all of the tax cuts will be spent, thus causing a depressing effect. Does favor a permanent reduction in corporate income taxes, but feels that there will not be much stimulus from this in the short run because part of the reduction will go into increasing cash liquidity.

Argues against exclusive reliance on the market-price system to allocate necessary fuels. Maintains that the energy conservation program should discriminate against the less essential use of autos and gasoline. Favors gas rationing, and the sooner the better, along with some increases in the gasoline tax offset by an equivalent reduction in income taxes for lower income groups.

Recommends consideration of a substantial horsepower tax on new autos, similar to the European system.

Herbert Stein, University of Virginia

Economic situation

Believes that because of recent inflationary problems, we should have a considerable period of economic slack in order to get the inflation rate down substantially and durably. Notes that this will entail an unusually high unemployment rate, but no one knows how much slack and how much time would be required to achieve a desirable change in the inflation rate.

Indicates that because the unemployment rate has increased dramatically in recent months and is expected to reach 8 percent by summer, it is desirable to stop this decline and initiate a recovery. However, warns that the recovery should not go too fast due to the danger of inflation.

Income tax cut

Tax rebate.—Considers a one-time tax rebate to be less of an economic stimulant than a permanent tax cut. Suggests that inflation-caused increases in the tax burden should be corrected, with the largest relief at the low end. Urges quick enactment of a tax cut before the

economic decline gets out of bounds. Endorses a net tax cut of about the $16 billion level proposed by the President. However, if Federal expenditures exceed the $349 billion for fiscal 1976, then believes the tax cut should be correspondingly smaller. Would prefer a smaller deficit along with an easier monetary policy to encourage private investment.

Investment tax credit.—Expects a temporary increase in the investment tax credit to be a relatively more powerful economic stimulus than a temporary personal income tax cut. However, prefers a permanent cut in corporate tax rates to another change in the credit.

Energy tax proposals

Expresses agreement with many aspects of the program, especially the emphasis on higher prices as a means of restricting imports of oil and consumption, the removal of price controls on oil, and the avoidance of rationing and allocations. Disagrees with the proposed windfall profits tax on domestic oil production as being discriminatory against oil. Maintains that oil should not be favored or disfavored by tax policy.

Paul A. Volcker, Woodrow Wilson School of Public and International Affairs, Princeton University

Economic situation

States that the economy is in what will be (statistically) the worst of the postwar recessions. Notes that there are now signs that price pressures are easing, but that high prices for oil imports are a continuing drain on purchasing power. Feels that Federal fiscal policy should properly be at a deficit. Asserts that monetary policy should not be viewed as a substitute for fiscal stimulus to the extent money supply increase would be above a sustainable, noninflationary long-term rate of growth.

Believes that the added fiscal stimulus can be financed without undue dislocations in the credit markets. Cautions, however, against making the large deficits habit forming. Agrees with President's call for expenditure restraint because the American people appear to be unwilling to pay for the present size government, must less pay more taxes for more spending. Hopes that the new Congressional budgetary procedures will assist in restraining excessive spending.

Income tax cuts

Investment tax credit.—In the short run, considers a sizeable increase in the investment credit as the most effective technique in stimulating needed business investment. For the long run, suggests consideration of a restructuring of the tax on corporate profits, to lessen the penalty against equity capital.

Personal income tax cut.—Questions the effectiveness of a tax rebate in terms of stimulating spending or in encouraging lessening wage demands. Feels that a cut in withholding would be more effective.

Energy tax program

Emphasizes that any program that attempts to achive energy conservation goals and lessening of demand for imported oil will compli-

cate the immediate problem of dealing with recession and inflation while not eliminating our vulnerability to an oil embargo for some years. Views a sudden $30 billion energy fiscal package as being uncertain in its impacts, with at least a short run drag on the economy while at the same time causing prices to rise.

Agrees with the President's long-term goals and the emphasis on price and market mechanisms, but that it would be too much for the present economy. Suggests limiting permanent new taxes to excises on gasoline and a horsepower tax on autos. Believes that revenues from a temporary windfall profits tax should be returned to the economy.

Philip M. Klutznick, Chairman of the Research and Policy Committee, Committee for Economic Development (CED)

Income tax cut

Feels that because of the deepening recession, the economy will need a net fiscal stimulus of about $25 billion just to stop the downslide this year. Proposes a personal income tax cut of $20 billion, in the form of a 3-percent tax credit against the first $15,000 of earnings. Notes that this would help wage earners offset some inflation. Recommends that this cut be immediate and permanent through reduced tax withholding. Suggests that the additional $5 billion of stimulus be from a combination of business tax cuts and increased government expenditures.

President's proposed tax rebate

Questions whether the proposed rebate of 1974 tax is sufficient, since part of it would not be effective until September. Indicates that it is uncertain as to how much of such a rebate will be spent or saved, as a significant amount of it would go to higher income taxpayers.

Energy tax proposals

Maintains that the President's proposed energy taxes will raise prices on gasoline, fuel oil, electricity, etc. and will increase the average family's energy bill by $250–$300 a year. Feels that there is risk that the overall inflationary impact of the package will be substantial, after taking into account its indirect impact on costs and prices, including multiplier effects on wages and other costs of business. Indicates that more tax relief may be needed to offset the dampening effect of the energy taxes, and that there is a separate need for a prompt tax cut so that the pinch of the new energy taxes will not hurt the economy before the tax relief is enacted.

Asserts that a much stronger net stimulus is needed than contained in the President's program—by about $10 billion.

Wage-price policy

Contends that the uncertainty of Government wage and price controls is contributing to higher wage and price increases now. Proposes that Congress make a declaration that in enacting a tax cut the reduction is being made as part of a social compact among business, labor, and government to hold down inflation so that wage-price controls will *not* be reimposed. Suggests that perhaps the degree of the tax cut be dependent upon wages and prices not exceeding a stated guideline.

Michael K. Evans, Chase Econometric Associates, Inc.

The tax program

Individual income tax rebate.—Believes that the general idea of a quick tax rebate deserves to be implemented, but feels that it should be modified to set a maximum rebate of either $400 or $500. Suggests an alternative rebate of about $80 per capita for those with 1974 incomes of less than $25,000; the credit could then be gradually reduced in the $25–30,000 range, with no credit if income exceeds $30,000. Maintains that such a rebate should occur as early as possible and be distributed in one lump sum during the first half of 1975 while there is the most economic slack.

Permanent individual income tax reduction.—Indicates that the outlook for permanent tax changes is cloudy at present and depends largely on what happens to the President's energy tax package. Suggests a revision in the tax tables so that they are demonstrated in terms of real income (i.e., "indexed") rather than in current money income; thus, inflation would not cause a taxpayer to move into a higher tax bracket.

Investment tax credit.—Asserts that a temporary tax credit increase would have a limited stimulative effect. Considers the proposal for a variable tax credit for utilities which invest in facilities not using oil or gas to be an excellent idea. Suggests that consideration should be given to granting a higher tax credit on any class of investment which significantly increases fuel efficiency, with a possible elimination of the credit for investments which did not increase either labor productivity or fuel efficiency. Maintains, however, that an expansion of the tax credit will not prove enough to adequately stimulate supply.

Corporate income tax.—Contends that a reduction in the corporate income tax rate from 48 percent to 42 percent is both a necessary and powerful tool to accomplish the needed increase in productive capacity. Asserts that such a tax reduction will provide a significant increase in corporate cash flow, result in a lower rate of inflation in the long run because the pretax rate of return required on invested capital can fall for the same after-tax rate of return, and it will lessen the dependence of corporations on the bond market. Maintains that if this rate reduction is not included in the overall tax package, inflationary pressures will reemerge during 1976. (Proposes a cut in the corporate to 40 percent.)

Energy tax program

Argues that the President's proposed energy program has no redeeming features, except for the proposed deregulation of oil and natural gas. Proposes that an investment offset be allowed against the windfall profits tax if adopted to encourage increased domestic supply.

Believes, however, that a gasoline tax of about 30 cents a gallon is preferable to a tax on crude oil. Contends that a gasoline tax would have more of an impact on cutting demand for oil as well as resulting in less overall inflation. Suggests also the granting of a tax credit for purchase of cars with above average fuel efficiency to further reduce use of gasoline.

Impact on economy

Forecasts that the President's total tax program will turn from mildly stimulative in late 1975 to definitely restrictive in 1976. Estimates that consumers would be faced with a total bill of at least $40 billion higher to as much as $72 billion plus having higher income taxes as a result of continued high inflation, which would be nowhere near offset by the proposed cut in income taxes.

Expects a significant recovery in the economy late in 1975 with or without any tax cuts or rebates; however, forecasts a larger recovery with the tax cuts. Indicates that the President's program will reduce the rate of growth in the first half of 1975 because of higher oil prices without having an adequate offsetting fiscal stimulus. Indicates that unemployment will not be reduced to near 7 percent until mid-1976.

Impact on price and monetary variables

Estimates that the deregulation of old oil and a $2/bbl. tax on all crude and imported oil products would raise the wholesale price index for petroleum products by 47 percent and the industrial WPI by 3 percent; the deregulation of natural gas and a 37¢/mcf excise tax would raise the industrial WPI by 3.8 percent; while the consumer price index would rise 2 percent because of the higher gas and oil prices, with an additional 0.8 percent due to secondary effects of cost-push inflation.

Contends that the President's total package would have a deleterious impact on the economy because of the increased long-term interest costs.

Increase in the gasoline tax

Maintains that the negative effects of higher inflation and lower growth could be significantly reduced by collecting the same amount of money from a gasoline tax instead of a tax on crude oil, while also having a greater effect in reducing the demand for petroleum. Estimates that a 30 cents-a-gallon tax would produce revenues of $25 billion as compared to the President's proposed $40 billion in the taxes on oil and gas.

Suggests consideration also of a tax credit for smaller cars that have greater fuel efficiency, which could result in a long-run gasoline savings of 3.5 million barrels per day, which would be in addition to the 1 million barrels per day saved immediately through the higher gasoline tax.

Charles L. Schultze, The Brookings Institution

Oil import fee

Feels that although it is important to reduce our dependence on oil imports over the next five years, it is not a necessary condition now for economic recovery. Asserts that the most needed action is an economic recovery, and that the President's import fee will seriously affect any recovery program by siphoning off $800 million a month by April 1 ($10 billion a year) from consumers which will almost negate the impact of the proposed tax rebate.

Recommends that the President's action on oil imports be postponed for at least three months, to give Congress a chance first to enact economic recovery measures and then consider a balanced energy program. Contends that if Congress fails to override or delay the President's oil import fee, then it will become essential for Congress to add at least $10 billion to the tax cut.

Fiscal policy-tax cut

Indicates that a large fiscal stimulus is needed in face of an economy that is operating far below capacity and deteriorating rapidly. Notes that the net drain of purchasing power in 1975 due to higher oil prices will be about $25–$30 billion.

Estimates the fiscal 1976 budget deficit to be about $44 billion before any tax cut ($354 billion expenditures, assuming Congress does not follow the President's expenditure limit proposals on social security, federal pay, etc., and $310 billion revenues), which will be largely due to the recession impact. Indicates that the full-employment budget would be in surplus because of inflation impacts in placing individuals in higher tax brackets and in boosting paper profits for corporations (the latter is changing because of the switching to LIFO inventory costing). Considers it unwise, however, to give away so much revenue on a permanent basis to eliminate the full employment surplus because of possible future expenditure needs, such as health insurance and welfare reform.

Suggests an overall package combining a substantial temporary tax cut and a modest long-run tax cut, along with additional temporary funds for State-local governments:

(1) an immediate rebate of $12 billion on 1974 personal income tax liabilities (but with payment in one installment), and concentrated more on lower and middle income taxpayers (e.g., a maximum of $700 instead of $1,000);

(2) a permanent cut of $10 billion in personal income tax to be reflected in reduced withholding as soon as possible (such as a tax credit of 1½ percent on the first $14,000 of earned income, which would be, in effect, a return of a portion of social security taxes without disturbing the social security system);

(3) a permanent increase in the investment tax credit from 7 percent to 10 percent, including a provision allowing public utilities to take full advantage of the 10-percent credit (for an estimated cost of $2½–3 billion); and

(4) a separate fiscal stimulus element of a counter-cyclical revenue sharing program of about $6 billion, with the amounts tied to the unemployment rate (payments falling to zero when the unemployment figure reached 4½ percent).

Notes that the overall fiscal package would, if enacted by April 1, 1975, put about $25 billion of stimulus into the economy in calendar 1975 (but with only $13 billion of the funds as permanent). Maintains that such a stimulus would not be inflationary in the current economy and would not threaten excessive demand. In addition, claims that such a fiscal stimulus (and accompanying deficit) would not lead to a sharp rise in interest rates nor lack of capital for industry or housing. Asserts that increasing the money supply by a sufficient amount to ease interest rates somewhat further and also accommodate a larger deficit

would not be inflationary in an economy with 8 percent unemployment and substantial excess capacity.

Joseph A. Pechman, Director of Economic Studies, The Brookings Institution

Economic outlook

Indicates that vigorous stimulative fiscal and monetary policies will be needed promptly to halt the recession by mid-1975. Notes that unemployment is rising at a rapid rate; consumer incomes are declining sharply in real terms; housing expenditures have been falling for two years; inventories have accumulated; business investment has been declining since mid-1974; and corporate profits will drop rapidly in real terms. Predicts that unemployment will exceed 8 percent before the recession is over. Feels that fiscal stimulus will not cause inflationary pressures to accelerate due to the excess capacity; however, if prices threaten to rise sharply while unemployment is still high, recommends restoring selective controls on prices and wages.

The President's tax proposal

Petroleum taxes.—Considers the proposed taxes on petroleum to be an ill-advised approach to the energy problem because such taxes will be counter-productive by causing prices to rise substantially; and secondly, they will depress demand because the $6.5 billion in corporate tax rate reduction will have little effect on corporate spending in the short run. Believes that a substantial tax on gasoline and on large autos is a preferable way to curb demand for oil; or, if a gasoline tax is not politically acceptable, then impose an import quota on oil and have gasoline rationing.

Investment tax credit.—Asserts that the spending stimulus from an increase in the credit is much larger dollar-for-dollar than a cut in corporate tax rates.

Income tax rebate.—Indicates that the income tax rebate has merit, since it can be put into effect promptly without affecting other tax changes. However, points out that there is no guarantee that such a rebate would be spent to any greater degree than would a cut in regular withholding. Suggests a combination of a large rebate paid entirely as soon as possible, plus a regular cut in withholding soon thereafter.

Criticizes the President's flat-rate rebate as being too regressive in favor of higher income taxpayers, with 52 percent of the rebate going to taxpayers with incomes of $20,000 and above. Contends that if $12 billion is to be spent this year in tax rebates to stimulate consumer spending, the 1974 tax liability is not the most relevant distributional device. Favors a $60 per capita payment to both taxpayers and nontaxpayers as being more equitable and providing greater amounts of spendable funds to the low-income family.

Individual income tax reduction options

Increases in the tax-free levels.—Feels that the most urgent need is to raise the minimum tax-free levels to at least the current poverty levels. Discusses various possible alternative approaches:

(1) increasing the low-income allowance from $1,300 to $2,000 for single persons and $2,600 for married couples, as proposed by

the President (at a cost of $5.0 billion, of which 93 percent would go to those with incomes less than $20,000);

(2) increasing the personal exemption from $750 to $900 and the low-income allowance from $1,300 to $2,000 (at a cost of $8.7 billion, of which 74 percent would go to those with less than $20,000);

(3) raising the low-income allowance to $2,000, with an additional per capita credit of $25 (at a cost of $7.6 billion, of which 84 percent would go to taxpayers with less than $20,000); and

(4) permitting taxpayers a $220 per capita credit as an option to the personal exemption, which would give more equitable relief to low- and middle-income families (at a cost of $8.2 billion, of which 95 percent would go to those with incomes below $20,000.

Tax rate reductions.—Considers cuts in tax rates for the lowest income brackets as appropriate for 1975 and 1976 due to the economic situation, but with the desirability of conditioning rate cuts for 1977 and after on enactment of real tax reform or on the finding that the revenues were not needed for expenditure programs later. Notes that about 77 percent of the President's proposed rate reductions would go to taxpayers with incomes below $20,000, which is a much more progressive distribution than the proposed rebate.

Refundable payment to nontaxpayers.—Endorses the concept of a per capita payment (or refundable credit) to those who are nontaxpayers. Asserts that this would not only improve the equity of the tax system but would also provide the impetus for a reconsideration of the negative income tax.

Estimates on alternative tax packages.—Makes the following estimates of tax reduction of alternative proposals and their distributions:

TABLE 1.—MINIMUM TAXABLE LEVELS UNDER THE PRESENT INDIVIDUAL INCOME TAX AND VARIOUS EXEMPTION, LOW INCOME ALLOWANCE, AND TAX CREDIT PLANS COMPARED WITH ESTIMATED POVERTY LEVELS, 1975

		Present law		Low income allowance of $2,600 for married couples; $2,000[2] for single persons		$900 per capita exemption; $2,000 low income allowance		$2,000 low income allowance; $25 additional per capita tax credit		$220 optional per capita tax credit[3]	
	Poverty level 1975[1]	Minimum taxable level	Difference	Minimum taxable level	Difference	Minimum taxable level	Difference	Minimum taxable level	Difference	Minimum taxable level	Difference
Family size:											
1	$2,850	$2,050	−$800	$2,750	−$100	$2,900	+$50	$2,929	+$79	$2,769	−$81
2	3,686	2,800	−886	4,100	+414	3,800	+114	3,857	+171	4,238	+552
3	4,382	3,550	−832	4,850	+468	4,700	+318	4,786	+404	5,511	+1,129
4	5,608	4,300	−1,308	5,600	−8	5,600	−8	5,714	+106	6,668	+1,060
5	6,618	5,050	−1,568	6,350	−268	6,500	−118	6,643	+25	7,826	+1,208
6	7,446	5,800	−1,646	7,100	−346	7,400	−46	7,567	+121	8,984	+1,538

[1] Estimates by the U.S. Treasury Department.
[2] Per capita exemption of $750 retained.
[3] Taxpayer is allowed to use the credit or the $750 per capita personal exemption, whichever is to his advantage.

TABLE 2—REVENUE AND DISTRIBUTIONAL EFFECTS OF VARIOUS INDIVIDUAL INCOME TAX EXEMPTION, LOW INCOME ALLOWANCE, AND TAX CREDIT PLANS, BY ADJUSTED GROSS INCOME CLASSES, 1975

Adjusted gross income class	Low income allowance of $2,600 for married couples; $2,000 for single persons	$900 per capita exemption; $2,000 low income allowance	$2,000 low income allowance; additional per capita tax credit	$220 optional per capita tax credit
Revenue change (billions of dollars)	−5.0	−8.7	−7.6	−8.2
Percentage distribution of revenue change:				
0 to $5,000	17.9	11.3	20.8	9.8
$5,000 to $10,000	48.3	30.3	34.8	34.3
$10,000 to $15,000	15.7	17.7	16.8	33.2
$15,000 to $20,000	11.4	14.5	12.0	17.3
$20,000 to $25,000	4.0	10.3	7.5	5.0
$25,000 to $50,000	2.5	12.2	6.9	.4
$50,000 and over	.1	3.6	1.3	(1)
All classes	100.0	100.0	100.0	100.0
Percentage change in tax liabilities:				
0 to $5,000	−52.2	−57.5	−92.7	−47.5
$5,000 to $10,000	−20.0	−21.8	−22.0	−23.5
$10,000 to $15,000	−3.7	−7.3	−6.1	−12.9
$15,000 to $20,000	−2.4	−5.3	−3.8	−6.0
$20,000 to $25,000	−1.0	−4.3	−2.7	−2.0
$25,000 to $50,000	−.4	−3.1	−1.5	−.1
$50,000 and over	(1)	−1.1	−.3	(1)
All classes	−3.5	−6.0	−5.3	−5.7

[1] Less than 0.05 percent.

Source: Computed from the Brookings tax file projected to 1975. Figures are rounded and will not necessarily add to totals.

TABLE 3.—REVENUE EFFECT OF VARIOUS INDIVIDUAL INCOME TAX RATE REDUCTION PLANS, BY ADJUSTED GROSS INCOME CLASSES, 1975

Adjusted gross income class	President's proposed 12 percent rebate of 1974 tax, up to $1,000 [1]	2 percent refundable tax credit on earnings up to $14,100	2 percentage point reduction in all marginal rates	President's proposed rate reduction
Revenue change (billions of dollars)	−12.8	−13.4	−12.7	−11.3
Percentage distribution of revenue change:				
0 to $5,000	1.2	7.0	1.8	5.7
$5,000 to $10,000	9.6	17.9	11.2	23.8
$10,000 to $15,000	17.4	26.6	18.4	27.7
$15,000 to $20,000	19.5	21.7	19.5	19.5
$20,000 to $25,000	17.1	13.1	15.7	11.2
$25,000 to $50,000	27.1	11.8	22.0	7.8
$50,000 and over	8.0	1.9	11.4	4.3
All classes	100.0	100.0	100.0	100.0
Percentage change in tax liabilities:				
0 to $5,000	−12.0	−55.4	−13.2	−37.6
$5,000 to $10 000	−12.0	−20.0	−11.8	−22.5
$10,000 to $15,000	−12.0	−16.8	−11.1	−14.8
$15,000 to $20,000	−12.0	−12.2	−10.4	−9.3
$20,000 to $25,000	−12.0	−8.4	−9.6	−6.1
$25,000 to $50,000	−11.7	−4.6	−8.2	−2.6
$50,000 and over	−4.0	−.9	−4.9	−1.6
All classes	−10.3	−9.3	−8.9	−7.9

[1] Rebate distributed on basis of estimated 1975 adjusted gross income classes of persons filing tax returns.

Source: Computed from the Brookings tax file projected to 1975. Figures are rounded and will not necessarily add t. totals.

TABLE 4.—REVENUE EFFECT OF 2 INCOME TAX REDUCTION PLANS, BY ADJUSTED GROSS INCOME CLASSES, 1975

Adjusted gross income class	Plan A [1]	Plan B [2]
Revenue change (billions of dollars)	−22.1	−17.5
Percentage distribution of revenue change:		
0 to $5,000	8.7	15.7
$5,000 to $10,000	22.8	27.9
$10,000 to $15,000	23.1	22.4
$15,000 to $20,000	18.9	15.9
$20,000 to $25,000	12.0	8.4
$25,000 to $50,000	12.0	6.3
$50,000 and over	2.6	3.3
All classes	100.0	100.0
Percentage change in tax liabilities:		
0 to $5,000	−112.9	−161.4
$5,000 to $10,000	−41.8	−40.7
$10,000 to $15,000	−24.1	−18.5
$15,000 to $20,000	−17.5	−11.7
$20,000 to $25,000	−12.7	−7.1
$25,000 to $50,000	−7.7	−3.2
$50,000 and over	−1.9	−1.9
All classes	−15.4	−12.2

[1] Raise personal exemption from $750 to $900 per capita and low income allowance from $1,300 to $2,000; and provide 2 percent refundable tax credit on earnings up to $14,100.

[2] Provide $80 payment to nontaxable adults; raise low income allowance from $1,300 to $2,600 for married couples and $2,000 for single persons; and adopt President's proposed rate reduction (see table 3).

Source: Computed from the Brookings tax file projected to 1975. Figures are rounded and will not necessarily add to totals.

PANEL NO. 2 (JANUARY 28, 1975)

Walter W. Heller, University of Minnesota

Economic situation

Indicates that the present economy is suffering from the combined forces of three adverse impacts: overly restrictive monetary and fiscal policies as well as the disrupting rise in oil costs. Contends that the restrictive monetary policy which followed even after the recession began has been a major factor in depressing the economy. Recommends significant easing of monetary policy. Points out that the full employment budget has been substantially in surplus, which has been a dramatic swing toward restriction in less than 18 months.

Income tax policy

Income tax rebate.—Urges adoption of $12 billion tax rebate for individuals, but recommends that it be restructured to direct more of the rebate to low- and middle-income groups and that it be made in one payment rather than two. Also, asks that consideration be given to including payments to those who paid no 1974 taxes—"a negative income tax."

Individual income tax cut for 1975.—Recommends an additional tax cut for 1975 to keep the economy from sliding into more recession in 1976. Suggests an immediate reduction of, say, 2 percentage points in the withholding rate in a first bill, leaving more precise changes for a follow-up bill.

Investment tax credit.—Indicates that it seems desirable to increase the credit somewhat.

Energy tax program

Notes that the quadrupling of oil prices is now siphoning off some $30 billion a year from consumers while adding about 3 points to the rate of inflation. Maintains that the President's proposed energy tax program would deal a double blow against the economy by boosting inflation and worsening the recession.

Urges consideration of an alternative energy program: combination of oil import quotas and allocation; gasoline rationing; and a gradual increase in the gasoline tax (quarterly increases of 2½ cents a gallon until it reaches an additional 30 cents). Recommends a refundable income tax credit to offset the increased gasoline tax, with some of the increase revenues reserved, however, for mass transit, building up of an oil stockpile, and development of alternative energy sources.

Argues that the gradual increase in the gas tax would allow a gradual removal of the rationing system as the market moved to adjust to the situation. This would also allow a gradual adjustment toward smaller and more gasoline-efficient cars.

Arthur M. Okun, Senior Fellow, The Brookings Institution

Economic situation

Points out that the nation is in its fourteenth month of recession, the longest since the Depression. Further, the current recession continues to gain momentum, with additional inventory corrections and major cutbacks in plant and equipment spending ahead to pull the economy even further downward. Indicates that unemployment seems headed for 8 percent or higher. Claims that Federal fiscal and monetary policies in 1974, however, kept restricting the economy in the effort to fight inflation.

Income tax cut proposals

Income tax rebate.—Calls for quick approval of a $12 billion personal income tax rebate on 1974 taxes, but with it paid out entirely at once and with more of the rebate going to lower income families. Contends that the two-payment approach proposed by the Administration would delay and dilute its intended impact to "prime the pump" immediately. Asserts that financing a one-time payment during this fiscal year would not have an adverse impact on credit markets because of the drop in private credit demand. Estimates that the rate of GNP in the third quarter of 1975 will be $10 billion higher if the rebate is paid in full in May rather than split into two payments.

Feels that because of the recent squeeze on real incomes of lower and middle income taxpayers, a relatively greater portion of the rebate should go to these groups. Suggests a limit of $500, and allocating the extra to the lower end of the income scale. Discusses also the alternative of rebating 2 percentage points of workers' 1974 payroll taxes, which would also amount to about $12 billion and give something back to workers who have no income tax liability (with a maximum of $264 for each worker). Notes that while such payments would presumably be processed by the Social Security Administration, the amounts could be charged against general funds and would not alter the trust fund.

Individual income tax cut for 1975.—Recommends also a permanent tax cut of $10 billion per year, structured to make the income tax more progressive by reducing the tax primarily for lower income taxpayers.

Investment tax credit.—Endorses the proposed increase in the credit as a supplement to consumer tax reduction. Feels that it will bolster capital spending—not so much by stimulating new expenditures as by neutralizing the tendency for delay and deferral of planned investment now under way. Asserts that some continued investment incentive will be needed in 1976 as well, such as a 10-percent credit rather than a drop back to 7 percent.

Energy tax program

Endorses the separation of the anti-recession tax package from the more complex issue of energy taxes. However, contends that if the import fees go into effect and oil prices are decontrolled before income tax offsets can be enacted, there will be a substantial drain on the economy. If the President does not delay such action, recommends that the Congress restrict the President's statutory powers over tariffs and mandate the continued price ceiling on domestic oil.

Sherman J. Maisel, University of California

Economic conditions for housing

Maintains that the greatest adverse impact on housing has come from high interest rates and restrictive monetary policy and rising prices of houses. A second cause of the drop in housing is the failure of the deposit institutions to adequately compete for funds in the money market; and thirdly, housing production has been hurt by an "extremely illogical" subsidy system in which most of the Government's aid comes through tax deductions.

Indicates that the solution to the housing depression requires a careful coordination of monetary and fiscal policies. Urges a longer fiscal stimulus than proposed by the President, accompanied by a fully accommodative monetary policy. Notes that if long-term interest rates do not decline, much of the expected recovery in housing will be aborted.

Income tax policy

Temporary tax cut.—Proposes that the fiscal stimulus be provided by a temporary income tax cut that could be rescinded if inflation gets out of hand, including a temporary increase in the investment credit. Believes that tax policy should be more flexible so as to avoid such extreme fluctuations in interest rates.

In the future, indicates that flexible excise taxes will be necessary to fight inflation and reduce interest rates.

Tax credits for savings.—Proposes a tax credit to protect the purchasing power of a limited amount of savings by guaranteeing that the savings return to the investor would account for inflation by giving a tax credit or refund to the individual to the extent the combined interest payout (basic minimum plus inflation factor) from the account exceeded 8 percent. (For example, assume a basic minimum

of 3 percent payout plus the annual rate of inflation, say, 7 percent, for a total of 10 percent return; a tax credit or refund would apply to the 2 percentage points paid in excess of 8 percent.)

Housing tax subsidies.—Urges major improvements in the tax subsidies to housing as a part of tax reform—such as a tax credit for property taxes and coordination of subsidies to mortgage lenders and borrowers. Asserts that an increase in the standard deduction will remove the tax deduction benefit for many taxpayers. Suggests consideration of an optional tax credit on housing purchases for taxpayers and nontaxpayers alike.

Taxes on interest.—Objects to any proposal to tax away interest above a stated percentage as injurious to housing.

Murray L. Weidenbaum, Washington University (St. Louis)

Utility financial outlook

Presents a detailed analysis of the financial condition and outlook for the utility industry.

Investment tax credit for utilities

Endorses the President's proposal to provide utilities with the same credit rate as other industries. Calls it long overdue, especially since utilities are experiencing great financial difficulties.

Recommends approval of the proposed higher investment credit rate for an additional two years for utilities (except for oil- and gas-fired facilities) because of the longer lead time required to construct a new facility. Proposes waiving, at least temporarily, the 50-percent limit on the credit for utilities.

Tax deduction for dividends on preferred stock

Asserts that this proposal will help alleviate the severe financial situation of utilities by attracting additional outside capital.

General tax policy

Indicates that Congress should avoid either too much fiscal stimulus, such as by greatly expanding spending, or waiting too late by complicating the tax package.

Henry L. Duncombe, Jr., Vice President and Chief Economist, General Motors Corp.

Economic situation

Expresses view that certain industries, such as residential construction and motor vehicles, have been particularly hit by the recession. This, however, has spread to other industries as well. Notes that GM has had to sharply curtail planned capital investment for new assembly plants, and that overall capital spending has remained as high as it has because of accelerating programs designed to increase auto fuel efficiency.

Attributes the sharp drop in auto demand and production to: (1) the recent rapid rise in the price of consumer items (such as food and energy) that has reduced disposable income for durable items; (2)

the general price inflation and uncertainty in the economic outlook so that large item purchases have been postponed; (3) fears of gas rationing and uncertainties as to gasoline prices; and (4) increased prices of autos. However, does not assign a dominant role in the downturn of demand to the 1975 auto price increases.

Claims that auto price performance over recent years has been superior to most other products, and that the cost of building the average GM vehicle in the U.S. has increased by $500 more than has the actual increase in price. And, if car prices are adjusted for quality improvements, indicates that car prices have risen by only half as much as the average of consumer prices.

Points out that retail sales of cars in the fourth quarter of 1974 were substantially below the level forecast and planned for earlier, and especially below the expected level of small car sales. This has resulted in unusually large inventory accumulations and production cutbacks and layoffs.

Income tax proposals

Supports the basic thrust of the tax cut recommendations made by the President's Labor-Management Advisory Committee for individuals and an increase in the investment credit. Maintains that the important factor is prompt action to restore confidence.

Energy tax program

Endorses the concept of immediate tax rate cuts for individuals and corporations included in the President's energy tax program.

Leonard Woodcock, President, International Union, United Automobile, Aerospace, & Agricultural Implement Workers of America (UAW)

Economic and employment situation

Points out that there are 239,000 unemployed in the four auto companies, and, combined with the related ripple effect on suppliers, there will be about one million affected in the first quarter of 1975. Notes that total industrial production fell 2.8 percent in December, on top of a 4.6 percent decline the previous 11 months; also that consumer spending on durables dropped dramatically in the final quarter of 1974. Indicates that quick action on an emergency tax cut is needed to restore economic confidence.

Income tax cut

Tax rebate.—Feels that the proposed 12-percent rebate is skewed toward the higher income taxpayers, especially when account is made for total Federal taxes (including social security taxes) paid by low-income workers. Estimates that the lowest 20 percent of families would get only 4.1 percent of the total rebate, while the highest 20 percent would receive 50.5 percent. Claims that the proposal is also inequitable for larger families.

Notes that the President's Labor-Management Advisory Committee unanimously recommended an emergency income tax cut of $20 billion—$15 billion to individuals and $5 billion to business—but that this was rejected by the President. Suggests that Congress adopt a personal income tax cut of at least $18 billion, composed of a $9 billion

rebate of 1974 (paid out in one sum) plus $9 billion paid during the second half of 1975 through decreased withholding. The tax rebate could be via a per capita payment of $40–$45, but not to exceed the total income tax plus social security tax paid in 1974.

Individual income tax cut for 1975.—Proposes a reduction in withholding effective July 1, 1975, at a 6 months rate of $9 billion ($18 billion annually), to be accomplished by a per capita credit ($80–$85 annually) plus a 5-percent negative surcharge (with an overall limit of $400). Asserts that reducing withholding taxes will carry forward the stimulus provided by the one-shot tax rebate, since most middle-income earners determine their purchases of durable items by their ability to make the extra monthly payment.

Investment tax credit.—Supports an increase in the investment tax credit, but only for 1975.

Income tax reform

Maintains that tax reform should not get mixed up with the energy tax package. Calls for equitable tax reform this year to help restore people's faith in the tax system.

Michael Sumichrast, Economist and Staff Vice President, National Association of Home Builders

Economic situation for housing

Indicates that residential construction is undergoing its deepest postwar cycle, with housing starts down 65 percent from their peak in 1972. Points out that construction unemployment was 15 percent in December, but estimates the unemployment rate in residential construction to be about 40 percent. States that the main reasons for this housing slump are lack of credit and record interest rates, especially for short-term construction money.

Maintains that the economy cannot turn around unless residential construction improves. Asserts that the liquidity problems facing construction firms must be eased, with temporary financial assistance from the Federal Reserve, the banks, the Small Business Administration, or a new Reconstruction Finance Agency. Also, consumer confidence has to be restored; interest rates must continue to moderate; and the Treasury bill rate should be held below 6 percent to assure a sufficient flow of funds into thrift institutions.

Contends that the fastest and surest way to create a housing recovery is to reinstate some of the government housing programs, such as the FHA Section 235 and 236 programs and effective use of the Farmers Home Administration programs. Suggests consideration of credit allocation in periods of capital shortage and greater utilization of pension funds as a source of mortgage funding.

Proposes a mechanism similar to the Construction Industry Stabilization Committee to provide cost and price stability in the construction industry.

Fiscal policies

Calls for flexible Federal fiscal policies, with a further review later this year to see if greater stimulus is needed. Expresses concern over the growth of total government expenditures.

Robert R. Nathan, Consulting Economist

Economic situation

Points out that we are in our second recession in the last five years, both of which resulted from deliberate policies to fight inflation by creating slack in the economy. Notes, however, that inflation has increased during the current recession, with inflation at the end of 1974 at nearly triple what it was when the Phase II controls were removed in January 1973. Maintains that we are already very late in responding to the long and deepening recession.

Hopes the President is not giving up the fight against inflation because of the need to counter the current recession. Contends that unless inflationary pressures are moderated during the current slack, then there is danger that recovery will bring a recurrence of accelerating inflation. Suggests that the Government should intervene in price and wage decisions rather than letting recession be the sole weapon against inflation.

Economic impact on utilities

Expresses concern over the way utilities have been hurt by inflation because of the lag in rate increase approvals by regulatory agencies, which has caused utility earnings to fall behind that required to attract adequate capital. As a result, there has been excessively heavy reliance on debt obligations, with a resulting heavy debt and interest burden and a deteriorating financial condition, including very low stock prices.

Investment incentives

Investment tax credit.—Maintains that as long as other industries get investment credits the utility sector should get the same rate, or even more, in the short run.

Depreciation.—Contends that accelerated depreciation should be normalized and not flowed through, as there is no point in permitting such accelerated depreciation if the States can deny the tax benefits to the utilities by requiring flow-through.

Dividends on preferred stock.—Endorses the President's proposal for tax exemption of dividends paid on qualified preferred stock. Asserts that utilities would be greatly helped if a tax exclusion were also adopted on dividends that common shareholders automatically reinvest in additional common shares.

Tax carrybacks.—Indicates that some utilities would benefit by a lengthening of the tax carryback period, which would also enhance their ability to enjoy the benefits of investment tax credits.

Energy tax program

Finds it difficult to conceive of an approach which would be more harmful to public utilities than the proposed excise taxes on gas and oil. Feels that big price increases on fuel inputs are far more undesirable than selective excise taxes which can be adjusted and adapted to achieve conservation where feasible and needed as well as minimize the inflation impact on utilities.

PANEL NO. 3 (JANUARY 29, 1975)

James S. Duesenberry, Harvard University

Economic situation

Indicates that unemployment will continue to rise for some time, and that we have an unstable situation so that there is a significant risk that the outcome will be even worse than the dismal projections which forecasters have given, unless we take some fairly strong fiscal and monetary action in the immediate future.

Points out that there has been a loss of potential demand due to the transfer of income to oil producers, from the effects of tight money in 1973 on housing and the stock market, from an increase in effective tax rates due to inflation, from loss of consumer confidence, and from increased unemployment. Feels that we are still facing a substantial inventory disinvestment this year due to declining demand. At the same time, expects inflation to continue, primarily a wage-price spiral.

Fiscal stimulus

Contends that the President's proposal for a tax cut will not provide enough stimulus nor last long enough. Asserts also that it has the wrong distribution. Doesn't believe that the proposed short-term fiscal stimulus, however, will create any significant inflationary pressures.

Estimates that every one percent of inflation results in a revenue increase of 1.2 percent; thus, recent inflation has resulted in a larger full employment budget surplus than previously expected. Continuation of this will place a continued drag on the economy.

Suggests a 4-point fiscal program:

(1) Temporary tax reduction, but with it slanted toward the low-income workers who would be more likely to spend it;

(2) Permanently cut tax rates to offset the increase in effective tax rates due to inflation—of about $15 billion;

(3) Temporary revenue-sharing program to assist State and local governments to offset the impact of unemployment and inflation, which would be phased out as the national unemployment rate dropped; and

(4) Temporary increase in the investment credit.

Hopes that monetary policy will be accommodative so that the fiscal stimulus can be effective and keep interest rates trending downward to enable housing to recover.

Paul W. McCracken, University of Michigan

Economic situation

Indicates that economic policy in 1975 must do three interrelated things: (1) provide enough stimulus to reverse the sharp deterioration of economic activity; (2) continue to make progress toward a more stable price-cost level; and (3) fashion an energy policy that will reduce our reliance on foreign oil supplies, while permitting the economy to maintain a sustained expansion.

Expects the recession to reach a low point sometime shortly after mid-year, with an unemployment rate in the 8-percent zone. Maintains that the first half of 1975 cannot be affected by current changes in policy. If there is to be sufficient expansion in GNP to reduce unemployment back to 5 percent in the next two years, there must be a sharp and continued increase in the money supply. However, maintains that monetary policy cannot do it alone. On the other hand, asserts that the fiscal stimulus should not be too large to create a massive budget deficit, with increased Treasury borrowing competing with the private market.

Tax policy

Prefers a permanent tax reduction to a temporary tax rebate as a means of stimulating consumer spending. Feels the important factor in the tax cut is in its promptness, not necessarily in its exact form.

Favors, also, the proposed reduction in corporate tax rates, to provide funds for needed investment. Notes that profits after taxes of nonfinancial corporations, as a percentage of gross corporate product, declined from 9.7 percent in 1965–66 to 5.1 percent by 1971 and to about 4 percent in 1974, which has had an adverse impact on true retained earnings.

Supports the increase in the investment credit, as a short term alternative to more fundamental restructuring of corporate profits taxation.

Carl Madden, Chief Economist, Chamber of Commerce of the United States

Economic situation

Feels that the long-run consequences of short-term policies to combat recession must be considered, as overly stimulative monetary-fiscal measures can undo the small progress against inflation and yet pave the way for another recession. Maintains that both fronts must be fought at the same time, and that inflation must be brought down to tolerable levels if we are to resume moderate economic growth next year. Views as equally important the pressing need for capital formation in light of lagging productivity.

Fiscal policy changes

Indicates that the $12 billion rebate for individuals would be more effective if it were to be all in one payment. Feels that this amount of additional deficit is manageable in the present slack economy, and that it would not be inflationary. Favors tax reductions to stimulate the economy rather than expenditure increases. Any spending increases, such as for unemployment compensation, revenue sharing, food stamps, and public service employment should be temporary to prevent enlarging the expenditure side.

Believes that the proposed increase in the investment credit is needed to stimulate investment in new plant and equipment.

George C. Hagedorn, Vice President and Chief Economist, National Association of Manufacturers

Economic situation

Asserts that past fiscal policies and the accumulation of large deficits in the past has been a basic cause of inflation, while the need for financing these deficits has deprived the private sector of needed capital. Moreover, claims that the tax structure itself has placed a burden on capital formation.

Maintains that inflation has imposed additional and unintended tax burdens on individuals and corporations. Believes that there are limits to what government can do to remedy all the accumulated economc ills of the past, nor can government restore economic health immediately.

Income tax policy

Temporary tax rebates.—Would not oppose a temporary tax rebate at a time when economic resources are widely underutilized.

Investment credit.—Endorses a liberalization of the investment credit, as it would help to offset the severe shortage of capital funds. Questions desirability of a one-year increase, however, as creating an artifical cycle in capital expenditures. Recommends prompt enactment of a permanent 10-percent credit, but without a basis adjustment.

Energy taxation

Prefers the price mechanism for restraining demand for energy, such as through a tax increase, rather than direct government intervention of allocation or rationing. Feels that the windfall profits tax is more doubtful in its impact, particularly if a "plowback" credit is not allowed.

Believes that an energy tax increase should be accompanied by tax reduction for individuals and corporations to avoid depressing the economy. Indicates that part of the tax relief should go to low-income taxpayers to account for inflation. Cautions against always tilting tax cuts disproportionately against upper income taxpayers. Asserts that there is already sufficient progressivity in the income tax system.

Corporate tax reduction.—Urges cutting the corporate tax rate. Contends that much of current profits are illusory due to inflated inventory values. Endorses proposal to cut corporate rate from 48 percent to 42 percent; suggests this could be done by reducing both the normal tax and the surtax by 3 percentage points.

Capital recovery allowances

Recommends consideration later of setting a "capital recovery allowance" system for plant and equipment, thereby abandoning the "useful life" concept.

Government spending

Strongly supports efforts to hold down spending so that the pump is not primed from both ends at one—and thereby reaccelerating inflationary pressures.

Robert H. B. Baldwin, President, Morgan Stanley & Co.

Economic situation in financial market

Emphasizes the importance of the stock market because corporations have to obtain equity capital from time to time if they are to maintain sound capital structures. Notes that there has been a substantial drop in stock prices, particularly of electric utilities where the need for new equity capital is a constant one.

Indicates that the stock market decline actually began in 1968 for most stocks (and in 1965 for electric and telephone utilities), other than for the so-called "growth" stocks that had a rise in 1971–72 because institutional investors were concentrating in such growth stocks. Points out that the broadly-based value line industrial average declined from a high of 199.99 in December 1968 to a low of 49.69 in September 1974, a drop of 75 percent. Claims that there has been a major shift from emphasis on common stocks by portfolio managers and more emphasis on dividend return, with bonds paying 10 percent and more. Indicates that most stocks are still selling a historically low price/earnings ratios, and in many cases at prices which represent a fraction of their book value. Asserts that this is not a market that tempts businessmen to raise funds.

States that long-term interest rates are double what they were a decade ago, which has drastically increased the cost of borrowing, particularly for utilities where only those with high quality bond ratings and strong balance sheets have been able to attract adequate financing needed for expansion. Other utilities have had to make major cutbacks in capital expenditures.

Capital requirements

Notes that the capital requirements were already large before the new emphasis on "project independence." Indicates that enormous amounts of money will be needed by the oil, gas, coal industries, as well as for transporting oil. In addition, new capital is needed for mass transit, electric utilities, and pollution control facilities as well as the needs of general manufacturing, to improve productivity to compete in world markets. Also, housing and business construction involve large amounts of capital.

Feels that there could be continued upward pressure on interest rates caused by the growing demand for capital funds and the inflationary expectations.

Fiscal policy and budget deficits

Finds the possibility of large deficits for two years approaching $75–100 billion as alarming. Views the rapid growth in government expenditures to have been an important factor in recent inflation. Sees a danger of too much stimulus when the economy may be actually recovering later. Feels that substantial increases in Treasury borrowing needs will push up interest rates again and squeeze some private investment needs unless monetary policy is eased significantly. Warns of the inflationary implications of large deficits and easy money policy.

Tax reduction proposal

Approves the proposed increase in the investment credit, but proposes that it be made permanent. Sympathizes with the objectives of a tax cut to stimulate the economy, but hopes it will not rekindle inflationary pressures.

Nathaniel Goldfinger, Director, Department of Research, American Federation of Labor–Congress of Industrial Organizations (AFL-CIO)

Economic and employment situation

Maintains that only prompt emergency action can turn the economy away from disaster: unemployment is still rising; production cutbacks are spreading; and there is threat of widespread bankruptcies of businesses and banks. Asserts that tight monetary policy has added to inflation and has deepened the recession. Indicates that retail sales (in constant dollars) are generally declining in addition to the sharp drop in auto and housing purchases. Further, the real volume of business investment in plant and equipment has been declining since mid-1974. Expects the January unemployment rate to approach 8 percent and be even higher for February.

Tax reduction

Urges consideration of the Labor-Management Advisory Committee recommendations of a $20 billion tax cut consisting of: (1) a $15 billion cut in personal income taxes, effective January 1, 1975, by means of a $70 per capita credit and a 5-percent cut in the tax remaining after the exemption credit (with a maximum credit of $375); and (2) a $5 billion cut in corporate taxes through a temporary increase in the investment credit to 12 percent for all industries, including utilities.

Contends that this approach would give most of the individual tax benefit to low- and middle-income taxpayers, while the President's proposed 12-percent rebate would give larger benefits to the higher income taxpayers. Supports also a program to reduce the impact of the payroll tax on low-income workers by replacing the trust fund amounts from such a tax reduction with money from the general fund.

Tax reform

Following prompt action on the tax cut bill, urges the Committee to adopt a strong tax reform package to close loopholes.

Energy tax program

Supports the Committee's action to delay the imposition of the tariff fee on imported oil. Argues that such a fee would discriminate against the northeastern states and would negate the stimulative effect of the income tax rebate.

Robert V. Roosa, Partner, Brown Bros. Harriman & Co.

Economic situation

Feels the President is on the right track in attempting to reverse the recession now, guard against a later resurgence of inflation, and get a grip on the energy shortage and the oil import dependence question.

Income tax policy

Believes that the first need is to stimulate both consumption and investment. Expresses doubt as to whether the proposed rebate of 1974 taxes will have enough impact to be worth the total expenditure, but would not strenuously oppose it. However, prefers a reduction of 1975 taxes, beginning with a suspension of withholding of up to, say, $75 per month for each taxpayer for 3–6 months. Agrees with the proposal for a flat disbursement of $80 to all nontaxpayers.

Urges that the increase in the investment credit to 12 percent be permanent, so that it will provide a continuing structural inducement to added investment.

Endorses the suggestion for permitting deduction of dividend payments on preferred stock as an encouragement to equity capital.

Suggests that foreign investors be exempted from withholding tax here only on investments which are fully reported to the Treasury, in order to prevent "invisible takeovers."

Equity financial assistance

Proposes that consideration be given to establishing a "Development Finance Corporation" to provide financial assistance, both debentures and redeemable preferred stock, to certain firms in need of temporary equity capital.